

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name <i>Village of Central Lake</i>	County
Audit Date <i>2/28/04</i>	Opinion Date <i>5/10/04</i>	Date Accountant Report Submitted to State: <i>5/24/04</i>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- | | |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<i>✓</i>		
Reports on individual federal financial assistance programs (program audits).			<i>✓</i>
Single Audit Reports (ASLGU).			<i>✓</i>

Certified Public Accountant (Firm Name) <i>Barry E. Gaudette, CPA, PC</i>			
Street Address <i>1107 E. 8th Street</i>	City <i>Traverse City</i>	State <i>MI</i>	ZIP <i>49686</i>
Accountant Signature <i>Barry E. Gaudette CPA</i>			

VILLAGE OF CENTRAL LAKE, MICHIGAN
GENERAL PURPOSE FINANCIAL REPORT
FOR THE YEAR ENDED FEBRUARY 29, 2004

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VILLAGE OF CENTRAL LAKE, MICHIGAN
ORGANIZATION
FEBRUARY 29, 2004
=====

VILLAGE OFFICERS AND COUNCIL MEMBERS

Larry Eckhardt	President
Brian Patton	President Pro Tem /Trustee
Greta Powers	Clerk/Treasurer
Karen Thomas	Trustee
Lela Clark	Trustee
Dennis Thier	Trustee
Sharon Pletcher	Trustee
Harry Pletcher	Trustee

INTRODUCTORY SECTION

Barry E. Gaudette, CPA, P.C.

CERTIFIED PUBLIC ACCOUNTANT

Members of the Village Council
Village of Central Lake
Central Lake, Michigan

1107 East Eighth Street
Traverse City, Michigan 49686
(231) 946-8930
Fax (231) 946-1377

Independent Auditor's Report

We have audited the accompanying general purpose financial statements of the Village of Central Lake, Michigan, as of and for the year ended February 29, 2004, as listed in the table of contents. These general purpose financial statements are the responsibility of the Village of Central Lake's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Village of Central Lake, Michigan, as of February 29, 2004, and the results of its operations and cash flows of its proprietary fund types for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was made for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The combining and individual fund and account group financial statements and schedules listed in the table of contents are presented for the purposes of additional analysis and are not a required part of the general purpose financial statements of the Village of Central Lake, Michigan. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly presented in all material respects in relation to the general purpose financial statements taken as a whole.

Barry E. Gaudette, CPA, PC

May 10, 2004

FINANCIAL SECTION

General Purpose Financial Statements

VILLAGE OF CENTRAL LAKE, MICHIGAN
COMBINED BALANCE SHEETS
ALL FUND TYPES
FEBRUARY 29, 2004
=====

	<u>Governmental Fund Types</u>	
	<u>General</u>	<u>Special Revenue</u>
<u>ASSETS</u>		
Cash	\$ 258,824	\$ 307,129
Receivables:		
Accounts		
Special assessments - current		
Due from other funds	6,271	
Due from State	15,892	21,900
Inventory of supplies		
Prepaid expenses	1,764	
Land		
Buildings and plant		
Machinery and equipment		
Accumulated depreciation		
Special assessments receivable		
- noncurrent		
Cash-restricted		
	<hr/>	<hr/>
TOTAL ASSETS	<u>\$ 282,751</u>	<u>\$ 329,029</u>

See notes to financial statements

<u>Proprietary Fund Types</u>		<u>Account Group</u>	<u>Totals (Memorandum Only)</u>	
<u>Enterprise</u>	<u>Internal Service</u>	<u>General Fixed Assets</u>	<u>February 29 and 28, 2004</u>	<u>2003</u>
\$ 180,551	\$ 38,023	\$	\$ 784,527	\$ 1,077,822
6,274			6,274	5,437
7,540			7,540	7,394
100,000			106,271	6,271
			37,792	37,596
9,000			9,000	9,000
41	412		2,217	2,217
51,070		16,400	67,470	67,470
1,780,960		35,584	1,816,544	1,816,544
205,304	422,536	34,746	662,586	662,586
(608,994)	(299,728)		(908,722)	(839,071)
26,294			26,294	33,980
<u>67,909</u>	<u></u>	<u></u>	<u>67,909</u>	<u>57,934</u>
<u>\$ 1,825,949</u>	<u>\$ 161,243</u>	<u>\$ 86,730</u>	<u>\$ 2,685,702</u>	<u>\$ 2,945,180</u>

VILLAGE OF CENTRAL LAKE, MICHIGAN
COMBINED BALANCE SHEETS
ALL FUND TYPES
 FEBRUARY 29, 2004
 (Continued)

	<u>Governmental Fund Types</u>	
	<u>General</u>	<u>Special Revenue</u>
<u>LIABILITIES & FUND EQUITY</u>		
LIABILITIES:		
Accounts payable	\$	\$
Accrued liabilities	4,072	
Due to other funds		100,000
Deferred revenue		
Accrued interest		
Bonds payable - current		
Bonds payable - net of current maturities		
TOTAL LIABILITIES	<u>4,072</u>	<u>100,000</u>
FUND EQUITY:		
Invested in general fixed assets		
Contributed capital - Village		
Contributed capital - Customers		
Contributed capital - Federal government		
Retained earnings		
Fund balances:		
Reserved for prepaid expenses	1,764	
Undesignated	<u>276,915</u>	<u>229,029</u>
TOTAL FUND EQUITY	<u>278,679</u>	<u>229,029</u>
TOTAL LIABILITIES & FUND EQUITY	<u>\$ 282,751</u>	<u>\$ 329,029</u>

See notes to financial statements

<u>Proprietary Fund Types</u>		<u>Account Group</u>	<u>Totals (Memorandum Only)</u>	
<u>Enterprise</u>	<u>Internal Service</u>	<u>General Fixed Assets</u>	<u>February 29 2004</u>	<u>and 28, 2003</u>
\$	\$	\$	\$	\$
			4,072	3,891
6,271			106,271	6,271
3,296			3,296	3,296
3,528			3,528	3,674
20,000			20,000	15,000
<u>345,000</u>	<u> </u>	<u> </u>	<u>345,000</u>	<u>365,000</u>
<u>378,095</u>	<u> </u>	<u> </u>	<u>482,167</u>	<u>397,132</u>
		86,730	86,730	86,730
228,995	47,059		276,054	277,531
211,362			211,362	217,193
720,765			720,765	729,613
286,732	114,184		400,916	438,085
<u> </u>	<u> </u>	<u> </u>	<u>1,764</u>	<u>1,764</u>
<u> </u>	<u> </u>	<u> </u>	<u>505,944</u>	<u>797,132</u>
<u>1,447,854</u>	<u>161,243</u>	<u>86,730</u>	<u>2,203,535</u>	<u>2,548,048</u>
<u>\$ 1,825,949</u>	<u>\$ 161,243</u>	<u>\$ 86,730</u>	<u>\$ 2,685,702</u>	<u>\$2,945,180</u>

VILLAGE OF CENTRAL LAKE, MICHIGAN
**COMBINED STATEMENTS OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCE
 ALL GOVERNMENTAL FUND TYPES**
 FOR THE YEAR ENDED FEBRUARY 29, 2004

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	<u>Governmental Fund Types</u>	
	<u>General</u>	<u>Special Revenue</u>
REVENUES:		
Taxes	\$ 168,434	\$ 41,789
State grants	96,952	88,854
Charges for services	2,248	
Interest and rents	67,735	5,169
Other	<u>2,331</u>	<u>125</u>
TOTAL REVENUES	<u>337,700</u>	<u>135,937</u>
EXPENDITURES:		
Current:		
Legislative	5,172	
General government	129,657	
Public safety	76,119	
Public works	94,510	497,884
Recreation and cultural	61,483	
Capital outlay	<u> </u>	<u> </u>
TOTAL EXPENDITURES	<u>366,941</u>	<u>497,884</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(29,241)	(361,947)
OTHER FINANCING SOURCES(USES):		
Operating transfers in (out)	<u>(249,523)</u>	<u>349,523</u>
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(278,764)	(12,424)
FUND BALANCE, beginning	<u>557,443</u>	<u>241,453</u>
FUND BALANCE, ending	<u>\$ 278,679</u>	<u>\$ 229,029</u>

See notes to financial statements

Totals (Memorandum Only)

Year Ended	
February 29 and 28,	
<u>2004</u>	<u>2003</u>
\$ 210,223	\$ 193,435
185,806	188,346
2,248	2,356
72,904	69,194
<u>2,456</u>	<u>3,165</u>
<u>473,637</u>	<u>456,496</u>

5,172	4,465
129,657	88,759
76,119	66,617
592,394	194,887
61,483	59,365
<u>864,825</u>	<u>414,093</u>

(391,188)	42,403
<u>100,000</u>	<u> </u>

(291,188)	42,403
<u>798,896</u>	<u>756,493</u>
<u>\$ 507,708</u>	<u>\$ 798,896</u>

VILLAGE OF CENTRAL LAKE, MICHIGAN
**COMBINED STATEMENTS OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL AND SPECIAL REVENUE FUNDS**
FOR THE YEAR ENDED FEBRUARY 29, 2004

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	<u>General Fund</u>		
	<u>Amended Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
REVENUES:			
Taxes	\$ 180,000	\$ 168,434	\$(11,566)
State grants	111,000	96,952	(14,048)
Charges for services	2,000	2,248	248
Interest and rents	51,700	67,735	16,035
Other	<u>1,000</u>	<u>2,331</u>	<u>1,331</u>
TOTAL REVENUES	<u>345,700</u>	<u>337,700</u>	<u>(8,000)</u>
EXPENDITURES:			
Current:			
Legislative	6,100	5,172	928
General government	79,800	129,657	(49,857)
Public safety	63,300	76,119	(12,819)
Public works	118,300	94,510	23,790
Recreation and cultural	63,900	61,483	2,417
Capital outlay	<u>1,500</u>	<u> </u>	<u>1,500</u>
TOTAL EXPENDITURES	<u>332,900</u>	<u>366,941</u>	<u>(34,041)</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	12,800	(29,241)	(42,041)
OTHER FINANCING SOURCES (USES):			
Operating transfers in (out)		(249,523)	(249,523)
FUND BALANCE, beginning	<u> </u>	<u>557,443</u>	<u>557,443</u>
FUND BALANCE, ending	<u>\$ 12,800</u>	<u>\$ 278,679</u>	<u>\$265,879</u>

See notes to financial statements

Special Revenue Funds

<u>Amended Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
\$ 19,000	\$ 41,789	\$ 22,789
77,000	88,854	11,854
3,000	5,169	2,169
<u>2,500</u>	<u>125</u>	<u>(2,375)</u>
<u>101,500</u>	<u>135,937</u>	<u>34,437</u>
154,300	497,884	(343,584)
<u>154,300</u>	<u>497,884</u>	<u>(343,584)</u>
(52,800)	(361,947)	(309,147)
	349,523	349,523
<u>53,300</u>	<u>241,453</u>	<u>188,153</u>
<u>\$ 500</u>	<u>\$ 229,029</u>	<u>\$228,529</u>

VILLAGE OF CENTRAL LAKE, MICHIGAN
**COMBINED STATEMENTS OF REVENUES, EXPENSES
 AND CHANGES IN RETAINED EARNINGS**
ALL PROPRIETARY FUND TYPES
 FOR THE YEAR ENDED FEBRUARY 29, 2004

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	<u>Proprietary Fund Types</u>	
	<u>Enterprise</u>	<u>Internal Service</u>
OPERATING REVENUES:		
Taxes	\$ 41,916	\$
Charges for services	116,850	67,592
Interest	<u>9,335</u>	<u>867</u>
TOTAL OPERATING REVENUES	<u>168,101</u>	<u>68,459</u>
OPERATING EXPENSES:		
Depreciation	41,268	28,384
Personal services	25,747	
Repairs and maintenance supplies	17,137	5,237
Equipment rental	13,018	
Contracted services	5,310	
Utilities	10,844	
Insurance	1,784	3,512
Gas and oil		8,354
Equipment repairs		2,517
Small equipment purchases		300
Building improvements		
Office, postage & operating supplies	734	
Printing & publishing	410	
Education and training	<u>585</u>	
TOTAL OPERATING EXPENSES	<u>116,837</u>	<u>48,304</u>
OPERATING INCOME (LOSS)	51,264	20,155
NON-OPERATING INCOME (EXPENSES):		
Operating transfers in (out)		(100,000)
Interest expense & fiscal charges	(20,870)	
Sale of assets		
Miscellaneous	<u>(3,873)</u>	
NET INCOME (LOSS)	26,521	(79,845)
Add - depreciation on assets purchased with contributed capital	<u>16,155</u>	
Subtotal	42,676	(79,845)
RETAINED EARNINGS, beginning	<u>244,056</u>	<u>194,029</u>
RETAINED EARNINGS, ending	<u>\$ 286,732</u>	<u>\$ 114,184</u>

See notes to financial statements

Totals (Memorandum Only)

<u>Year Ended</u>	
<u>February 29 and 28,</u>	
<u>2004</u>	<u>2003</u>
\$ 41,916	\$ 38,227
184,442	203,026
<u>10,202</u>	<u>9,302</u>
<u>236,560</u>	<u>250,555</u>
69,652	71,114
25,747	31,341
22,374	26,702
13,018	21,705
5,310	10,328
10,844	6,826
5,296	6,818
8,354	6,738
2,517	3,858
300	3,597
	2,866
734	1,219
410	231
<u>585</u>	<u>104</u>
<u>165,141</u>	<u>193,447</u>
71,419	57,108
(100,000)	
(20,870)	(21,613)
	10,800
<u>(3,873)</u>	<u>(711)</u>
(53,324)	45,584
<u>16,155</u>	<u>16,155</u>
(37,169)	61,739
<u>438,085</u>	<u>376,346</u>
<u>\$ 400,916</u>	<u>\$ 438,085</u>

VILLAGE OF CENTRAL LAKE, MICHIGAN
COMBINED STATEMENTS OF CASH FLOWS
ALL PROPRIETARY FUND TYPES
 FOR THE YEAR ENDED FEBRUARY 29, 2004

	<u>Proprietary Fund Types</u>	
	<u>Enterprise</u>	<u>Internal Service</u>
Cash Flows From Operating Activities:		
Cash received from tax collections	\$ 41,916	\$
Cash received from customers	123,552	67,591
Cash paid to suppliers and employees	(75,569)	(19,919)
Net Cash Provided By Operating Activities	<u>89,899</u>	<u>47,672</u>
Cash Flows From Noncapital Financing Activities:		
Due from other funds (increase)	(100,000)	
Operating transfers (out)		(100,000)
Miscellaneous income (expenses)	(3,873)	
Restricted cash (increase)	(9,975)	
Net Cash (Used In) Noncapital Financing Activities	<u>(113,848)</u>	<u>(100,000)</u>
Cash Flows From Capital And Related Financing Activities:		
Sale of assets		
Principal paid on long-term debt	(15,000)	
Interest paid on long-term debt	(21,015)	
Purchase of plant and equipment		
Net Cash (Used In) Capital And Related Financing Activities	<u>(36,015)</u>	
Cash Flows From Investing Activities:		
Interest on investments	<u>9,333</u>	<u>867</u>
Net Cash Provided By Investing Activities	<u>9,333</u>	<u>867</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(50,631)	(51,461)
Cash and Cash Equivalents, beginning	<u>231,182</u>	<u>89,484</u>
Cash and Cash Equivalents, ending	<u>\$ 180,551</u>	<u>\$ 38,023</u>

See notes to financial statements

Totals (Memorandum Only)

Year Ended	
February 29 and 28,	
<u>2004</u>	<u>2003</u>
\$ 41,916	\$ 38,227
191,143	205,679
(95,488)	(143,796)
<u>137,571</u>	<u>100,110</u>

(100,000)	
(100,000)	
(3,873)	(711)
(9,975)	(5,612)
<u>(213,848)</u>	<u>(6,323)</u>

	10,800
(15,000)	(15,000)
(21,015)	(21,758)
<u></u>	<u>(2,930)</u>

<u>(36,015)</u>	<u>(28,888)</u>
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<u>10,200</u>	<u>9,302</u>
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<u>10,200</u>	<u>9,302</u>
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(102,092)	74,201
<u>320,666</u>	<u>246,465</u>

<u>\$ 218,574</u>	<u>\$ 320,666</u>
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VILLAGE OF CENTRAL LAKE, MICHIGAN
COMBINED STATEMENTS OF CASH FLOWS
ALL PROPRIETARY FUND TYPES
 FOR THE YEAR ENDED FEBRUARY 29, 2004
 (Continued)

	<u>Proprietary Fund Types</u>	
	<u>Enterprise</u>	<u>Internal Service</u>
Reconciliation Of Net Operating Income To Net Cash Provided By Operating Activities:		
Net Operating Income	\$ 51,264	\$ 20,155
Adjustments To Reconcile Net Operating Income To Net Cash Provided By Operating Activities:		
Depreciation	41,268	28,384
Decrease (increase) in receivables	6,702	
Decrease (increase) in prepaid insurance		
Increase (decrease) in accounts payable		
Interest income classified as an investing activity	<u>(9,335)</u>	<u>(867)</u>
Net Cash Provided By Operating Activities	<u>\$ 89,899</u>	<u>\$ 47,672</u>

See notes to financial statements

Totals (Memorandum Only)
Year Ended
February 29 and 28,
2004 2003

\$ 71,419 \$ 57,108

69,652 71,114
6,702 2,651

368

(21,829)

(10,202) (9,302)

\$ 137,571 \$ 100,110

VILLAGE OF CENTRAL LAKE, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED FEBRUARY 29, 2004
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NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Introduction

The Village of Central Lake (Village) complies with Generally Accepted Accounting Principles (GAAP). The Village's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. Proprietary funds apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

The accounting and reporting framework and the more significant accounting principles and practices are discussed in subsequent sections of this Note. The remainder of the Notes are organized to provide explanations, including required disclosures, of the Village's financial activities for the fiscal year ended February 29, 2004.

B. Reporting Entity

The Village of Central Lake was organized in 1883. The Village operates under an elected Council (7 members) and provides services to its more than 990 residents in many areas including law enforcement, street development and maintenance, parks and sewer and water services.

In evaluating how to define the Village for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. The basic, but not the only, criterion for including a potential component unit within the reporting entity is the Village's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the Village and/or its citizens, or whether the activity is conducted within the geographic boundaries of the Village and is generally available to its citizens. A third criterion used to evaluate

VILLAGE OF CENTRAL LAKE, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED FEBRUARY 29, 2004
(Continued)

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NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

B. Reporting entity - Continued

potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the Village is able to exercise oversight responsibilities. Based upon the application of these criteria, the financial statements of certain other governmental organizations are not included in the financial statements.

C. Funds and Account Groups

The accounts of the Village are organized into funds and account groups, each of which is considered to be a separate accounting entity.

The major fund categories and account groups are:

Governmental Fund Types

These funds are those through which most governmental functions typically are financed. The focus of Governmental Fund measurement is upon determination of financial position and changes in financial position (sources, uses and balances of the financial resources) rather than upon net income. The following is a description of the Governmental Fund Types of the Village:

General Fund

The General Fund is the general operating fund of the Village. It is used to account for all financial resources except those required to be accounted for in another fund. Revenues are derived primarily from property taxes, State and Federal distributions, grants and other intergovernmental revenues.

Special Revenue Funds

Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than special assessments, expendable trust or major capital projects) that are legally restricted to expenditures for specified purposes. These funds include the Major Street and Local Street Funds.

VILLAGE OF CENTRAL LAKE, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED FEBRUARY 29, 2004
(Continued)

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NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

C. Funds and Account Groups - Continued

Proprietary Fund Types

These funds are used to account for the Village's ongoing organization and activities. The focus of Proprietary Fund measurement is upon determination of net income, financial position and changes in cash flows. The generally accepted accounting principles applicable are those similar to businesses in the private sector. The following is a description of the Proprietary Fund Types of the Village:

Enterprise Funds

The Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The Village's Sewer and Water Funds are Enterprise Funds.

Internal Service Funds

The Internal Service Funds are used to account for the financing of goods and services provided by one department or agency to other departments or agencies of the Village on a cost reimbursement basis. The Village's Equipment Fund is an Internal Service Fund.

Account Groups

The account groups are used to account for fixed assets and long-term liabilities which are not reported in the respective governmental funds. There are not any long-term liabilities in governmental funds.

VILLAGE OF CENTRAL LAKE, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED FEBRUARY 29, 2004
(Continued)

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NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

D. Total Columns (memorandum only)

Total columns on the combined statements are captioned "memorandum only" to indicate that they are presented only to aid in financial analysis. Interfund eliminations have not been made in the aggregation of this data; and it is, therefore, not comparable to a consolidation.

E. Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

Modified Accrual

All Governmental Funds (General and Special Revenue Funds) and the Expendable Trust Fund are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, property taxes and other revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred.

Taxpayer-assessed income, gross receipts and sales taxes are considered "measurable" when in the hands of intermediary collecting governments and are recognized as revenue at that time. Anticipated refunds of such taxes are recorded as liabilities and reductions of revenue when they are measurable and their validity seem certain.

Accrual

All Proprietary Funds (Enterprise and Internal Service Funds) are accounted for using the accrual basis of accounting. Revenues are recognized when they are earned, and expenses are recognized when incurred.

VILLAGE OF CENTRAL LAKE, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED FEBRUARY 29, 2004
(Continued)

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NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

F. Budgets

Annual operating budgets are adopted by the Village Council for the General and Special Revenue Funds in accordance with Public Act 621 of 1978.

The Village follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. At the first meeting in February, the President submits to the Village Council, a proposed operating budget for the year commencing the following March 1st. The operating budget includes proposed expenditures and the means of financing them for the General and Special Revenue Funds.
- b. Public hearings are conducted at the Village Hall to obtain taxpayer comments.
- c. Prior to February 29, the budget is legally enacted on a departmental (activity) basis through passage of a resolution.
- d. Budget amendments are made by the Village Council as the need arises during the year.
- e. Formal budgetary integration is employed as a management control device during the year for all budgetary funds. Also, all budgets are adopted on a basis consistent with generally accepted accounting principles.
- f. Budget appropriations lapse at year end.
- g. The original budget was amended during the year in compliance with the Village procedures and applicable state laws. The budget to actual expenditures in the financial statements represent the final budgetary expenditures as amended by the Village Council.

Annual operating budgets were adopted by the Village Council for the General and Special Revenue Funds in accordance with Public Act 621 of 1978.

VILLAGE OF CENTRAL LAKE, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED FEBRUARY 29, 2004
(Continued)

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NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

G. Encumbrance System

The Village does not use an encumbrance system.

H. Assets and Liabilities

1. Cash and investments

Michigan Compiled Laws, Section 129.91, authorizes the Village of Central Lake to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States in which the principal and interest is fully guaranteed by the United States, including securities issued or guaranteed by the Government National Mortgage Association; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; commercial paper rated by two standard rating agencies within the three highest classifications, which mature not more than 270 days after the date of purchase, and which involve no more than 50 percent of any one fund; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

The Village Council Board has designated three banks for the deposit of Village funds.

The Village's deposits and investments are in accordance with statutory authority.

2. Accounts Receivable

It is the Village's policy to place delinquent sewer bills on the tax rolls on an annual basis. Delinquent water bills are handled by shutting off the service until the bills are paid in full.

VILLAGE OF CENTRAL LAKE, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED FEBRUARY 29, 2004
(Continued)

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NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

H. Assets and Liabilities - Continued

3. Inventories

Inventories in governmental funds consist of expendable supplies held for consumption stated on a first-in, first-out basis. They are reported at cost which is recorded as an expenditure at the time individual inventory items are used. Proprietary fund inventories are recorded at the lower of cost or market on a first-in, first-out basis.

4. Utility Plant In Service and Depreciation

Utility plant in service of the Enterprise Fund is stated at cost. Depreciation is computed over the estimated useful life of the assets using the straight-line method.

5. Internal Service Fund Equipment and Depreciation

Equipment in service of the Internal Service Fund is stated at cost. Depreciation is computed over the estimated useful life of the assets using the straight-line method.

6. Fixed Assets, Depreciation, and Amortization

Property, plant, and equipment of all funds are stated at historical cost. Donated fixed assets are stated at their fair market value on the date donated. Governmental fund fixed assets are recorded in the General Fixed Asset Account Group and are not depreciated. Proprietary fund fixed assets are recorded in the respective funds and depreciated using the straight-line method. Estimated useful lives, in years, for depreciable assets are as follows:

Meters	10-20
Water System	25-50
Sewer System	50
Furniture, fixtures, & equipment	5-20

Contributed capital is recorded at historical cost and amortized over 50 years using the straight-line method. For further information regarding fixed assets, see Note 3, A.3., describing property and equipment.

VILLAGE OF CENTRAL LAKE, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED FEBRUARY 29, 2004
(Continued)

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NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

H. Assets and Liabilities - Continued

7. Capitalized Interest

Interest costs are capitalized when incurred by proprietary funds on debt where proceeds were used to finance the construction of assets.

I. Allowance for Doubtful Accounts

The Village does not use an allowance for doubtful accounts.

J. Accrued Vacation and Sick Leave

The Village does not account for employee accrued sick and vacation pay. The Village's policy is to reimburse its employees for any sick and/or vacation pay unused at year end.

K. Fund Balance Reserve

The Fund Balance Reserve reflects an offset for prepaid insurance and/or restricted cash. Under the modified accrual basis of accounting, when prepaid insurance is reported in the financial statements, they are to be equally offset by a fund balance reserve account. This indicates that even though prepaid insurance is a component of net current assets, it does not represent an "available spendable resource."

NOTE 2: EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETARY FUNDS

P.A. 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the Village's actual expenditures and budget expenditures for the budgetary funds have been shown on a functional basis. The approved budgets of the Village for these budgetary funds were adopted to the activity level.

VILLAGE OF CENTRAL LAKE, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
 FOR THE YEAR ENDED FEBRUARY 29, 2004
 (Continued)

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NOTE 2: EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETARY FUNDS - Continued

During the year ended February 29, 2004, the Village incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated, as follows:

<u>Fund</u>	<u>Amended Appropriations</u>	<u>Amount of Expenditures</u>	<u>Budget Variance</u>
<u>General Fund</u>			
General Government:			
Village president	\$ 2,000	\$ 3,916	\$(1,916)
Clerk/treasurer	41,900	85,643	(43,743)
Village property	14,400	18,025	(3,625)
Promotional	2,000	3,420	(1,420)
Public Safety:			
Crime control	54,800	74,094	(19,294)
Recreational & Cultural:			
Parks and recreation	36,400	40,619	(4,219)
<u>Major Street Fund</u>			
Public works	103,800	377,113	(273,313)
<u>Local Street Fund</u>			
Public works	50,500	120,771	(70,271)

NOTE 3: DETAILED NOTES ON FUNDS AND ACCOUNT GROUPS

A. ASSETS

1. Deposits and Investments

The Village maintains a common checking account for the General, Water and Equipment Funds.

The Village's deposits are in accordance with statutory authority. The GASB Statement No. 3 risk disclosure for the Village's cash deposits are as follows:

	<u>Bank Balance</u>	<u>Book Balance</u>
Insured (FDIC)	\$ 267,909	\$ 267,909
Uninsured:		
Uncollateralized	<u>585,000</u>	<u>584,527</u>
Total	<u>\$ 852,909</u>	<u>\$ 852,436</u>

VILLAGE OF CENTRAL LAKE, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED FEBRUARY 29, 2004
(Continued)

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NOTE 3: DETAILED NOTES ON FUNDS AND ACCOUNT GROUPS - Continued

A. Assets - Continued

1. Deposits and Investments - Continued

For purposes of the statement of cash flows, the Village considers highly liquid investments (including restricted assets) with an original maturity of three months or less when purchased to be cash equivalents.

2. Property Taxes Receivable and Property Tax Calendar

	<u>Mills</u>	<u>Adjusted Levy</u>	<u>Collections</u>	<u>Delinquent Real</u>	<u>Unpaid Personal</u>
Village - general	8.0182	\$168,038	\$ 144,089	\$ 23,949	\$ -0-
Village - streets	1.9940	41,786	35,831	5,955	
Village - water fund	2.0000	41,913	36,074	5,839	

It is the Village's policy for the General Fund to purchase delinquent personal property taxes from other Village funds.

Details of the property tax calendar are as follows:

Levy date:	December 31st of prior year
Lien date:	July 1st
Due date:	July 1st
Collection dates:	July 1st through September 14th

On September 15th, the Village Treasurer turns the delinquent real taxes over to the County Treasurer for collection. Uncollected taxes as of September 30, 2003 were purchased by the County tax revolving fund and paid to the Village in October of 2003.

The Village's Total Taxable Valuation is \$20,957,491.

VILLAGE OF CENTRAL LAKE, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
 FOR THE YEAR ENDED FEBRUARY 29, 2004
 (Continued)

NOTE 3: DETAILED NOTES ON FUNDS AND ACCOUNT GROUPS - Continued

A. Assets - Continued

2. Property Taxes Receivable and Property Tax Calendar - Continued

Property tax revenues are recognized in the fiscal year for which they have been levied and become available. Available means when due, or past due and receivable within the current period and collected within the current period or expected to be collected soon enough thereafter to be used to pay current period liabilities. The current period referred to here is a period of time not exceeding 60 days.

3. Property and Equipment

A summary of changes in general fixed assets is as follows:

	Balance 02/28/03	Additions	Payments	Balance 02/29/04
Land	\$ 16,400	\$	\$	\$ 16,400
Buildings	3,500			3,500
Parks & recreation	27,005			27,005
Campground	5,079			5,079
Machinery and Equipment	34,746			34,746
Totals	<u>\$ 86,730</u>	<u>\$</u>	<u>\$</u>	<u>\$ 86,730</u>

A summary of Proprietary Fund Type plant and equipment at February 29, 2004 is as follows:

	Enterprise	Internal Service
Land	\$ 51,070	\$
Building and plant	1,780,960	
Machinery and equipment	205,304	422,536
Total	2,037,334	422,536
Less accumulated depreciation	<u>(608,994)</u>	<u>(299,728)</u>
NET	<u>\$ 1,428,340</u>	<u>\$ 122,808</u>

VILLAGE OF CENTRAL LAKE, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
 FOR THE YEAR ENDED FEBRUARY 29, 2004
 (Continued)

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NOTE 3: DETAILED NOTES ON FUNDS AND ACCOUNT GROUPS - Continued

A. Assets - Continued

3. Property and Equipment - Continued

Depreciation expense for the Enterprise and Internal Service Funds for the year ended February 29, 2004 was \$41,268 and \$28,384, respectively.

B. LIABILITIES

1. Bonds Payable

All bonds payable at February 29, 2004 are accounted for through the Enterprise Fund. Bond information is as follows:

Water Supply System Revenue Bonds - 1999 Issue bearing interest at 5.8% and maturing on January 1st of each year from 2004-2017	\$ 365,000
Less Current Maturities during 2004/2005	<u>(20,000)</u>
Total Long-term Bonds Payable	<u>\$ 345,000</u>

Maturities of Bonds Payable for each of the next five years are as follows: (2004) \$20,000; (2005) \$20,000; (2006) \$20,000; (2007) \$25,000 and (2008) \$25,000.

Changes in Bonds Payable for each of the next five years are as follows:

	<u>Balance</u> <u>02/28/03</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u> <u>02/29/04</u>
Revenue Bonds	\$ 380,000	\$ _____	\$ 15,000	\$ 365,000
Totals	<u>\$ 380,000</u>	<u>\$ _____</u>	<u>\$ 15,000</u>	<u>\$ 365,000</u>

VILLAGE OF CENTRAL LAKE, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED FEBRUARY 29, 2004
(Continued)

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NOTE 3: DETAILED NOTES ON FUNDS AND ACCOUNT GROUPS - Continued

B. Liabilities - Continued

2. Contingencies and Commitments - Bonds Payable

Bond Ordinance 1984-20 as amended, allows that the bond shall be subject to payment in full or redemption prior to maturity. The full faith and credit of the Village is pledged as security for the prompt payment of the principal and interest on the bonds, and in addition, all payments received on Special Assessment Roll No. 1 for the Central Lake Sewage Disposal System have been pledged and shall be used as received only to pay the principal of and the interest on said bonds.

3. Risk management

The Village is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, as well as medical benefits provided to employees. The Village has purchased commercial insurance for medical benefits claims and participates in the Michigan Municipal League & Property Pool for claims relating to general liability, excess liability, auto liability, trunkline liability, errors and omissions, physical damage (equipment, buildings and contents) and workers compensation.

This policy complies with Act 294, P.A. 1972, as amended.

VILLAGE OF CENTRAL LAKE, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED FEBRUARY 29, 2004
(Continued)

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NOTE 3: DETAILED NOTES ON FUNDS AND ACCOUNT GROUPS - Continued

C. INTERFUND TRANSACTIONS

Following is a description of the basic types of interfund transactions made during the year and the related accounting policy:

Transactions for services rendered or facilities provided; these transactions are recorded as revenue in the receiving fund and expenditures in the disbursing fund.

Transactions to transfer revenue or contributions from the fund budgeted to receive them to the fund budgeted to expend them; these transactions are recorded as transfers in and transfers out.

Interfund transactions are not eliminated for financial presentation purposes.

The General Fund is due \$6,271 from the Water Fund, as of February 29, 2004. The Water Fund is due \$100,000 from the Major Street Fund, as of February 29, 2004.

D. FUND EQUITY

1. Analysis of Changes in Contributed Capital Enterprise Funds

Depreciation on contributed assets was causing a net loss and a retained deficit in the Sewer Fund, therefore based upon a recommendation from the State, the Village elected, as of February 29, 1990, to change the method of accounting for depreciation on assets purchased with contributed capital in that fund. The result of the change was a restatement of the beginning contributed capital and retained earnings (deficit) balances.

VILLAGE OF CENTRAL LAKE, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
 FOR THE YEAR ENDED FEBRUARY 29, 2004
 (Continued)

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NOTE 3: DETAILED NOTES ON FUNDS AND ACCOUNT GROUPS - Continued

D. Fund Equity - Continued

1. Analysis of Changes in Contributed Capital Enterprise Funds - Continued

An analysis of the change in the contributed capital is as follows:

	<u>Village</u>	<u>Customers</u>	<u>Federal Government</u>
BALANCE, beginning	\$ 230,472	\$ 217,193	\$ 729,613
LESS, current depreciation on assets purchased with contributed capital	(1,477)	(5,831)	(8,848)
BALANCE, ending	<u>\$ 228,995</u>	<u>\$ 211,362</u>	<u>\$ 720,765</u>

2. Reserved Fund

Reservations of equity show amounts that are not appropriate for expenditure or are legally restricted for specific uses. The purpose for each is indicated by the account title on the face of the balance sheet.

NOTE 4: SEGMENT INFORMATION FOR THE ENTERPRISE FUND

The Village maintains two Enterprise Funds which provide sewer and water services. Segment information for the year ended February 29, 2004 is as follows:

	<u>Sewer System</u>	<u>Water System</u>	<u>Total Enterprise Funds</u>
Operating revenues	\$ 25,688	\$ 142,413	\$ 168,101
Depreciation	16,560	24,708	41,268
Operating income (loss)	(9,532)	60,796	51,264
Tax revenues		41,916	41,916
Non-operating expenses	(3,460)	(21,283)	(24,743)
Net income (loss)	(12,992)	39,513	26,521
Net working capital	46,876	223,435	270,311
Total assets	679,157	1,146,792	1,825,949
Bonds payable		365,000	365,000
Total equity:			
Contributed capital	585,687	771,993	1,357,680
Retained earnings	90,174	196,558	286,732

VILLAGE OF CENTRAL LAKE, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED FEBRUARY 29, 2004
(Continued)

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NOTE 5: RECLASSIFICATION OF AMOUNTS

Certain amounts previously reported have been reclassified to conform to the 2004 presentation.

NOTE 6: INDIVIDUAL FUNDS PRESENTATION

The General and Internal Service Fund are the only Village funds of their fund type. Therefore, they are not presented in a combining statement in the supplemental data portion of this report.

NOTE 7: COMPARATIVE DATA

Comparative total data for the prior year have been presented in the accompanying financial statements in order to provide an understanding of changes in the Village's financial position and operations. However, comparative (i.e. presentation of prior year totals by fund type) data have not been presented in each of the statements since their inclusion would make the statements unduly complex and difficult to read.

SUPPLEMENTARY DATA SECTION

COMBINING AND INDIVIDUAL FUND STATEMENTS

VILLAGE OF CENTRAL LAKE, MICHIGAN
COMBINING BALANCE SHEETS
ALL SPECIAL REVENUE FUNDS
 FEBRUARY 29, 2004

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	Major Street	Local Street	Totals Year Ended February 29 and 28, 2004 2003	
<u>ASSETS</u>				
Cash	\$257,564	\$ 49,565	\$307,129	\$221,569
Due from State	<u>14,196</u>	<u>7,704</u>	<u>21,900</u>	<u>19,884</u>
TOTAL ASSETS	<u>\$271,760</u>	<u>\$ 57,269</u>	<u>\$329,029</u>	<u>\$241,453</u>
<u>LIABILITIES & FUND BALANCE</u>				
LIABILITIES:				
Due to other funds	\$100,000	\$ _____	\$100,000	\$ _____
TOTAL LIABILITIES	100,000		100,000	
FUND BALANCE:				
Unreserved:				
Undesignated	<u>171,760</u>	<u>57,269</u>	<u>229,029</u>	<u>241,453</u>
TOTAL LIABILITIES & FUND BALANCE	<u>\$271,760</u>	<u>\$ 57,269</u>	<u>\$329,029</u>	<u>\$241,453</u>

VILLAGE OF CENTRAL LAKE, MICHIGAN
 COMBINING STATEMENTS OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCE
 ALL SPECIAL REVENUE FUNDS
 FOR THE YEAR ENDED FEBRUARY 29, 2004

			Totals	
			Year Ended	
	Major	Local	February 29 and 28,	
	Street	Street	2004	2003
REVENUES:				
Taxes	\$	\$ 41,789	\$ 41,789	\$ 38,250
State grants	62,392	26,462	88,854	83,438
Interest	3,547	1,622	5,169	5,418
Other	125		125	2,500
TOTAL REVENUES	66,064	69,873	135,937	129,606
EXPENDITURES:				
Public works:				
Administration	11,186	978	12,164	1,106
Highways, streets and bridges				
Construction	323,894	1,298	325,192	6,728
Routine maintenance	18,611	100,356	118,967	32,394
Traffic services	248	248	496	1,563
Winter maintenance	23,174	17,891	41,065	37,691
TOTAL EXPENDITURES	377,113	120,771	497,884	79,482
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(311,049)	(50,898)	(361,947)	50,124
OTHER FINANCING SOURCES (USES):				
Operating transfers in (out)	349,523		349,523	
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	38,474	(50,898)	(12,424)	50,124
FUND BALANCE, beginning	133,286	108,167	241,453	191,329
FUND BALANCE, ending	\$171,760	\$ 57,269	\$ 229,029	\$ 241,453

VILLAGE OF CENTRAL LAKE, MICHIGAN
COMBINING BALANCE SHEETS
ALL ENTERPRISE FUNDS
FEBRUARY 29, 2004
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	<u>Sewer Fund</u>	<u>Water Fund</u>
<u>ASSETS</u>		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 40,817	\$ 139,734
Receivables:		
Accounts	1,774	4,500
Special assessments - current	7,540	
Inventory of supplies		9,000
Prepaid expenses	41	
Due from other funds		100,000
TOTAL CURRENT ASSETS	<u>50,172</u>	<u>253,234</u>
PROPERTY, PLANT AND EQUIPMENT:		
Land	38,850	12,220
Buildings and plant	826,571	954,389
Machinery and equipment	7,045	198,259
Accumulated depreciation	<u>(269,775)</u>	<u>(339,219)</u>
NET PROPERTY, PLANT AND EQUIPMENT	<u>602,691</u>	<u>825,649</u>
OTHER ASSETS:		
Special assessments receivable, noncurrent	26,294	
Cash-restricted		67,909
TOTAL OTHER ASSETS	<u>26,294</u>	<u>67,909</u>
TOTAL ASSETS	<u>\$ 679,157</u>	<u>\$1,146,792</u>

Totals	
Year Ended	
February 29 and 28,	
<u>2004</u>	<u>2003</u>
\$ 180,551	\$ 231,182
6,274	5,437
7,540	7,394
9,000	9,000
41	
<u>100,000</u>	<u>41</u>
<u>303,406</u>	<u>253,054</u>
51,070	51,070
1,780,960	1,780,960
205,304	205,304
<u>(608,994)</u>	<u>(567,727)</u>
<u>1,428,340</u>	<u>1,469,607</u>
26,294	33,980
<u>67,909</u>	<u>57,934</u>
<u>94,203</u>	<u>91,914</u>
<u>\$ 1,825,949</u>	<u>\$ 1,814,575</u>

VILLAGE OF CENTRAL LAKE, MICHIGAN
COMBINING BALANCE SHEETS
ALL ENTERPRISE FUNDS
 FEBRUARY 29, 2004
 (Continued)

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	<u>Sewer Fund</u>	<u>Water Fund</u>
<u>LIABILITIES & FUND BALANCE</u>		
CURRENT LIABILITIES:		
Due to other funds	\$	\$ 6,271
Deferred revenues.	3,296	
Accrued interest		3,528
Bonds payable - current		<u>20,000</u>
TOTAL CURRENT LIABILITIES	<u>3,296</u>	<u>29,799</u>
LONG-TERM DEBT:		
Bonds payable less current maturities		<u>345,000</u>
TOTAL LONG-TERM DEBT		<u>345,000</u>
TOTAL LIABILITIES	<u>3,296</u>	<u>374,799</u>
FUND BALANCE:		
Contributed capital - Village	53,560	175,435
Contributed capital - Customers	211,362	
Contributed capital - Federal government	320,765	400,000
Retained earnings	<u>90,174</u>	<u>196,558</u>
TOTAL FUND BALANCE	<u>675,861</u>	<u>771,993</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 679,157</u>	<u>\$1,146,792</u>

Totals	
Year Ended	
February 29 and 28,	
2004	2003
\$ 6,271	\$ 6,271
3,296	3,296
3,528	3,674
<u>20,000</u>	<u>15,000</u>
<u>33,095</u>	<u>28,241</u>
<u>345,000</u>	<u>365,000</u>
<u>345,000</u>	<u>365,000</u>
<u>378,095</u>	<u>393,241</u>
228,995	230,472
211,362	217,193
720,765	729,613
<u>286,732</u>	<u>244,056</u>
<u>1,447,854</u>	<u>1,421,334</u>
<u>\$ 1,825,949</u>	<u>\$ 1,814,575</u>

VILLAGE OF CENTRAL LAKE, MICHIGAN
**COMBINING STATEMENTS OF REVENUES, EXPENSES
 AND CHANGES IN RETAINED EARNINGS
 ALL ENTERPRISE FUNDS**
 FOR THE YEAR ENDED FEBRUARY 29, 2004

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	<u>Sewer Fund</u>	<u>Water Fund</u>
OPERATING REVENUES:		
Taxes	\$	\$ 41,916
Charges for services	25,049	91,801
Interest	<u>639</u>	<u>8,696</u>
TOTAL OPERATING REVENUES	<u>25,688</u>	<u>142,413</u>
OPERATING EXPENSES:		
Personal services	6,084	19,663
Office supplies & postage	162	572
Repairs & maintenance supplies	4,086	13,051
Contracted services	2,012	3,298
Printing and publishing	22	388
Insurance	786	998
Utilities	980	9,864
Equipment rental	4,373	8,645
Education & training	155	430
Depreciation	16,560	24,708
Building improvements	<u> </u>	<u> </u>
TOTAL OPERATING EXPENSES	<u>35,220</u>	<u>81,617</u>
OPERATING INCOME (LOSS)	<u>(9,532)</u>	<u>60,796</u>
NON-OPERATING INCOME (EXPENSE):		
Interest expense and fiscal charges		(20,870)
Miscellaneous	<u>(3,460)</u>	<u>(413)</u>
TOTAL NON-OPERATING INCOME (EXPENSES)	<u>(3,460)</u>	<u>(21,283)</u>
NET INCOME (LOSS)	(12,992)	39,513
Add - depreciation on assets purchased with contributed capital	<u>16,155</u>	<u> </u>
Subtotal	3,163	39,513
RETAINED EARNINGS, beginning	<u>87,011</u>	<u>157,045</u>
RETAINED EARNING, ending	<u>\$ 90,174</u>	<u>\$ 196,558</u>

Totals	
Year Ended	
February 29 and 28,	
2004	2003
\$ 41,916	\$ 38,227
116,850	122,815
<u>9,335</u>	<u>8,120</u>
<u>168,101</u>	<u>169,162</u>
25,747	31,341
734	1,219
17,137	22,964
5,310	10,328
410	195
1,784	3,538
10,844	6,826
13,018	21,705
585	104
41,268	42,051
<u> </u>	<u>2,866</u>
<u>116,837</u>	<u>143,137</u>
<u>51,264</u>	<u>26,025</u>
(20,870)	(21,613)
<u>(3,873)</u>	<u>(498)</u>
<u>(24,743)</u>	<u>(22,111)</u>
26,521	3,914
<u>16,155</u>	<u>16,155</u>
42,676	20,069
<u>244,056</u>	<u>223,987</u>
<u>\$ 286,732</u>	<u>\$ 244,056</u>

VILLAGE OF CENTRAL LAKE, MICHIGAN
COMBINING STATEMENTS OF CASH FLOWS
ALL ENTERPRISE FUNDS
 FOR THE YEAR ENDED FEBRUARY 29, 2004

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	<u>Sewer Fund</u>	<u>Water Fund</u>
Cash Flows From Operating Activities:		
Cash received from tax collections	\$	\$ 41,916
Cash received from customers	31,922	91,630
Cash paid to suppliers and employees	<u>(18,660)</u>	<u>(56,909)</u>
Net Cash Provided By Operating Activities	<u>13,262</u>	<u>76,637</u>
Cash Flows From Noncapital Financing Activities:		
Due from other funds (increase)		(100,000)
Miscellaneous income (expenses)	(3,460)	(413)
Restricted cash (increase)	<u></u>	<u>(9,975)</u>
Net Cash (Used In) Noncapital Financing Activities	<u>(3,460)</u>	<u>(110,388)</u>
Cash Flows From Capital And Related Financing Activities:		
Principal paid on long-term debt		(15,000)
Interest paid on long-term debt		(21,015)
Purchase of plant and equipment	<u></u>	<u></u>
Net Cash (Used In) Capital And Related Financing Activities	<u></u>	<u>(36,015)</u>
Cash Flows From Investing Activities:		
Interest on investments	<u>638</u>	<u>8,695</u>
Net Cash Provided By Investing Activities	<u>638</u>	<u>8,695</u>
Net Increase (Decrease) in Cash and Cash Equivalents	10,440	(61,071)
Cash and Cash Equivalents, beginning	<u>30,377</u>	<u>200,805</u>
Cash and Cash Equivalents, ending	<u>\$ 40,817</u>	<u>\$ 139,734</u>

Totals	
Year Ended	
February 29 and 28,	
<u>2004</u>	<u>2003</u>
\$ 41,916	\$ 38,227
123,552	125,468
<u>(75,569)</u>	<u>(100,720)</u>
<u>89,899</u>	<u>62,975</u>
(100,000)	
(3,873)	(498)
<u>(9,975)</u>	<u>(5,612)</u>
<u>(113,848)</u>	<u>(6,110)</u>
(15,000)	(15,000)
(21,015)	(21,758)
<u></u>	<u></u>
<u>(36,015)</u>	<u>(36,758)</u>
<u>9,333</u>	<u>8,120</u>
<u>9,333</u>	<u>8,120</u>
(50,631)	28,227
<u>231,182</u>	<u>202,955</u>
<u>\$ 180,551</u>	<u>\$ 231,182</u>

VILLAGE OF CENTRAL LAKE, MICHIGAN
COMBINING STATEMENTS OF CASH FLOWS
ALL ENTERPRISE FUNDS
 FOR THE YEAR ENDED FEBRUARY 29, 2004
 (Continued)

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	<u>Sewer Fund</u>	<u>Water Fund</u>
Reconciliation Of Net Operating Income To Net Cash Provided By Operating Activities:		
Net Operating Income (Loss)	\$(9,532)	\$ 60,796
Adjustments To Reconcile Net Operating Income To Net Cash Provided By Operating Activities:		
Depreciation	16,560	24,708
(Increase) decrease in receivables	6,873	(171)
(Increase) decrease in prepaid insurance		
Interest income classified as an investing activity	<u>(639)</u>	<u>(8,696)</u>
Net Cash Provided By Operating Activities	<u>\$ 13,262</u>	<u>\$ 76,637</u>

<u>Totals</u>	
<u>Year Ended</u>	
<u>February 29 and 28,</u>	<u>2004</u>
<u>2004</u>	<u>2003</u>
\$ 51,264	\$ 26,025
41,268	42,051
6,702	2,651
	368
<u>(9,335)</u>	<u>(8,120)</u>
<u>\$ 89,899</u>	<u>\$ 62,975</u>

VILLAGE OF CENTRAL LAKE, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND

FOR THE YEAR ENDED FEBRUARY 29, 2004

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	Amended <u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
REVENUES:			
Taxes	\$180,000	\$168,434	\$(11,566)
State grants	111,000	96,952	(14,048)
Charges for services	2,000	2,248	248
Interest and rents	51,700	67,735	16,035
Other	<u>1,000</u>	<u>2,331</u>	<u>1,331</u>
TOTAL REVENUES	<u>345,700</u>	<u>337,700</u>	<u>(8,000)</u>
EXPENDITURES:			
Current:			
Legislative:			
Governing body	6,100	5,172	928
General government:			
Village president	2,000	3,916	(1,916)
Election board	500	69	431
Independent audit	5,000	4,725	275
Payroll taxes	14,000	13,859	141
Clerk/treasurer	41,900	85,643	(43,743)
Village property	14,400	18,025	(3,625)
Promotional	2,000	3,420	(1,420)
Public safety:			
Crime control	54,800	74,094	(19,294)
Planning commission	8,500	2,025	6,475
Public works:			
Department of public works	85,800	71,428	14,372
Sidewalks	18,000	9,359	8,641
Streetlights	14,500	13,723	777
Recreational and cultural:			
Parks and recreation	36,400	40,619	(4,219)
Campgrounds	27,500	20,864	6,636
Capital outlay - general government	<u>1,500</u>	<u> </u>	<u>1,500</u>
TOTAL EXPENDITURES	<u>332,900</u>	<u>366,941</u>	<u>(34,041)</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	12,800	(29,241)	(42,041)

VILLAGE OF CENTRAL LAKE, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND

FOR THE YEAR ENDED FEBRUARY 29, 2004
 (CONTINUED)

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	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	12,800	(29,241)	(42,041)
OTHER FINANCING SOURCES (USES):			
Operating transfers (out)		(249,523)	(249,523)
FUND BALANCE, beginning	<u> </u>	<u>557,443</u>	<u>557,443</u>
FUND BALANCE, ending	<u>\$ 12,800</u>	<u>\$278,679</u>	<u>\$265,879</u>

VILLAGE OF CENTRAL LAKE, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
MAJOR STREET FUND
 FOR THE YEAR ENDED FEBRUARY 29, 2004

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	<u>Amended Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
REVENUES:			
State grants	\$ 54,000	\$ 62,392	\$ 8,392
Interest	2,000	3,547	1,547
Other	<u>2,500</u>	<u>125</u>	<u>(2,375)</u>
TOTAL REVENUES	<u>58,500</u>	<u>66,064</u>	<u>7,564</u>
EXPENDITURES:			
Public works:			
Administration	1,000	11,186	(10,186)
Highways, streets and bridges:			
Construction	58,800	323,894	(265,094)
Routine maintenance	25,000	18,611	6,389
Traffic services	1,500	248	1,252
Winter maintenance	<u>17,500</u>	<u>23,174</u>	<u>(5,674)</u>
TOTAL EXPENDITURES	<u>103,800</u>	<u>377,113</u>	<u>(273,313)</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(45,300)	(311,049)	(265,749)
OTHER FINANCING SOURCES (USES):			
Operating transfers in(out)	<u> </u>	<u>349,523</u>	<u>349,523</u>
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(45,300)	38,474	83,774
FUND BALANCE, beginning	<u>45,300</u>	<u>133,286</u>	<u>87,986</u>
FUND BALANCE, ending	<u>\$ </u>	<u>\$171,760</u>	<u>\$171,760</u>

VILLAGE OF CENTRAL LAKE, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
LOCAL STREET FUND
 FOR THE YEAR ENDED FEBRUARY 29, 2004

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	<u>Amended Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
REVENUES:			
Taxes	\$ 19,000	\$ 41,789	\$ 22,789
State grants	23,000	26,462	3,462
Interest	<u>1,000</u>	<u>1,622</u>	<u>622</u>
TOTAL REVENUES	<u>43,000</u>	<u>69,873</u>	<u>26,873</u>
EXPENDITURES:			
Public works:			
Administration	1,000	978	22
Highways, streets and bridges:			
Construction	21,000	1,298	19,702
Routine maintenance	14,500	100,356	(85,856)
Traffic services	500	248	252
Winter maintenance	<u>13,500</u>	<u>17,891</u>	<u>(4,391)</u>
TOTAL EXPENDITURES	<u>50,500</u>	<u>120,771</u>	<u>(70,271)</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(7,500)	(50,898)	(43,398)
FUND BALANCE, beginning	<u>8,000</u>	<u>108,167</u>	<u>100,167</u>
FUND BALANCE, ending	<u>\$ 500</u>	<u>\$ 57,269</u>	<u>\$ 56,769</u>

VILLAGE OF CENTRAL LAKE, MICHIGAN
SCHEDULE OF REVENUE BONDS PAYABLE
2000 WATER SUPPLY SYSTEM REVENUE BONDS
 FOR THE YEAR ENDED FEBRUARY 29, 2004
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Schedule A

<u>Interest Rate</u>	<u>Date of Original Issue</u>	<u>Registered Owner</u>	<u>Principal Amount</u>
5.8%	February 4, 1999	People State Bank	\$ 460,000

<u>Maturity August 1,</u>	<u>Principal Amount</u>	<u>Interest Due</u>		<u>Total</u>
		<u>January 1,</u>	<u>July 1,</u>	
2004	\$	\$	\$ 10,132	\$ 10,132
2005	20,000	10,132	9,623	39,755
2006	20,000	9,623	9,102	38,725
2007	20,000	9,102	8,573	37,675
2008	25,000	8,573	7,904	41,477
2009	25,000	7,904	7,222	40,126
2010	25,000	7,222	6,535	38,757
2011	25,000	6,535	5,841	37,376
2012	30,000	5,841	5,009	40,850
2013	30,000	5,009	4,161	39,170
2014	35,000	4,161	3,173	42,334
2015	35,000	3,173	2,166	40,339
2016	35,000	2,166	1,160	38,326
2017	40,000	1,160		41,160
	<u>\$ 365,000</u>	<u>\$ 80,601</u>	<u>\$ 80,601</u>	<u>\$ 526,202</u>

COMMENTS AND RECOMMENDATIONS

Members of the Village Council
Village of Central Lake
Central Lake, Michigan

Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The following comments are based on observations made during the course of our examination for the year ended February 29, 2004, and requirements of the Farmers Home Administration USDA's audit guide. Several of the comments were also noted the previous year.

Internal Control

An evaluation was made of the system of internal control. The system of internal control appeared to be adequate.

Chart of Accounts

The Village is presently using the State of Michigan uniform chart of accounts.

Control Over Assets

The Village, at present, has adequate physical control over its Internal Service and Enterprise Fund assets. The assets are being recorded as purchased in their funds, thus maintaining accounting control of the assets.

Loan Agreements

The Village appears to be in compliance with loan agreements, including the maintenance of cash reserves.

Accounting Records

The financial reports included in the audit appear to be in agreement with the Village's accounting records.

Village of Central Lake
Comments and Recommendations
Page Two

Cash and Cash Investments

Cash and cash investments which consist of savings accounts, certificates of deposit, and money market accounts are stated at cost. The Village had \$852,909 of cash and cash investments at February 29, 2004 in the bank of which \$267,909 was insured.

Bond and Insurance Policies

Bond and insurance policies were examined and confirmed by direct communications. The Village is periodically reviewing insurance coverage.

Bond Requirements

As of February 29, 2004, the Village is in compliance with the requirements set forth for the sewage disposal system's and water supply system's bonds.

Income Tax Status

The Village is exempt from federal income tax.

Aging of Accounts Receivable

Sewer and water accounts are billed quarterly. An aging of the accounts receivable is as follows:

<u>Fund</u>	<u>Total</u>	<u>0-30 Days</u>	<u>31-60 Days</u>	<u>61-90 Days</u>	<u>91 or more Days</u>
Sewer	\$ 1,774	\$ 1,348	\$ 426	\$	\$
Water	4,500	4,005	495		

This letter supplements the information in the General Purpose Financial Statements and Notes to the Financial Statements. It is intended solely for the use of management and Farmers Home Administration and should not be used for any other purpose.

Barry E. Sandlett, CPA, PC

May 10, 2004